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Testimony

Before the Subcommittee on Government  
Organization, Efficiency, and Financial  
Management, Committee on Oversight and  
Government Reform, House of Representatives

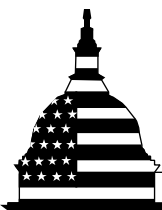
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# TRADE ADJUSTMENT ASSISTANCE

## Commerce Program Has Helped Manufacturing and Services Firms, but Measures, Data, and Funding Formula Could Be Enhanced

Statement of J. Alfredo Gomez,  
Acting Director, International Affairs and Trade



**G A O**

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Chairman Platts, Ranking Member Towns, and Members of the Subcommittee:

I am pleased to be here today to discuss the Trade Adjustment Assistance (TAA) for Firms program, which is administered by the Department of Commerce's (Commerce) Economic Development Administration (EDA). Over the past decade U.S. imports have almost doubled, reaching \$2.7 trillion in 2011. During the same period, the United States entered into free trade agreements that liberalize trade with 14 partner countries. Further trade liberalization is being pursued, including a Transpacific Partnership among 11 nations in the Asia-Pacific region.

Although trade expansion can enhance the economic welfare of all trade partners, many firms and workers experience difficulties adjusting to import competition. Congress has responded to concerns about these difficulties with trade adjustment assistance programs.<sup>1</sup> Established in 1962, the TAA for Firms program provides technical assistance to help trade-impacted, economically distressed firms make adjustments that may enable them to remain competitive in the global economy. In fiscal years 2009 through 2012, EDA received \$15.8 million annually for the TAA for Firms program. EDA uses its appropriation for the TAA for Firms program to fund 11 TAA Centers (center), which provide assistance to U.S. manufacturing, production, and service firms in all 50 states, the District of Columbia, and the Commonwealth of Puerto Rico.

Congress amended the TAA for Firms program under that part of the American Recovery and Reinvestment Act of 2009 known as the Trade and Globalization Adjustment Assistance Act (TGAAA) of 2009 and mandated that we review the operation and effectiveness of these amendments. My testimony is based on our September 2012 report that examined (1) the results of the legislative changes on program operations and participation, (2) the performance measures and data that EDA uses to evaluate the program and what these tell us about the program's effectiveness, and (3) how program funding is allocated and spent.

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<sup>1</sup>The three other TAA programs focus on workers, farmers, and communities.

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My statement today summarizes our findings on each of the three issues discussed in our report.<sup>2</sup>

First, we found that the four changes mandated by the 2009 legislation contributed to improvements in program operations and increased participation:

- *Creation of director and other full-time positions:* The creation of a director and other full-time positions for the program resulted in reduced firm certification processing times for petitions.
- *New annual reporting on performance measures:* EDA has submitted three annual reports to Congress on these performance measures as a result of the legislation.
- *Inclusion of service sector firms:* According to our analysis of EDA data, the inclusion of service sector firms allowed EDA to certify 26 firms not previously eligible for assistance from fiscal years 2009 through 2011.<sup>3</sup>
- *Expansion of the “look-back” period from 12 months to 12, 24, or 36 months:* Our analysis of EDA data shows that 32 additional firms participated in the program from fiscal years 2009 through 2011 based on the expansion of the look-back period from 12 months to 12, 24, or 36 months. Prior to the legislative changes, firms were only allowed to compare sales and production data in the most recent 12 months to data from the immediately preceding 12-month period.

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<sup>2</sup>More detail is available in the report, GAO, *Trade Adjustment Assistance: Commerce Program Has Helped Manufacturing and Services Firms, but Measures, Data, and Funding Formula Could Improve*, [GAO-12-930](#) (Washington, D.C.: Sept. 13, 2012). We conducted our work from July 2011 to September 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

<sup>3</sup>Examples of service sector firms assisted by some centers include architectural engineering firms, telecommunications firms, and software development firms.

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Our review found that from fiscal years 2008 through 2010 EDA certified and approved an increased number of petitions and business recovery plans. According to staff at several TAA Centers, the economic downturn contributed to the increase in firms applying for and receiving assistance from the TAA for Firms program during this time period because more firms could demonstrate a decline in sales and employment. Additionally, EDA officials and TAA Centers staff stated that the 2009 legislative changes increased interest in and demand for the program by prospective firms.

EDA certified fewer petitions and approved fewer recovery plans in fiscal year 2011 than in fiscal year 2010. EDA officials and TAA Centers staff attributed the decline to a lapse in the legislative changes from February to October 2011; uncertainty regarding the program's future funding; and improvement in the economy, which prevented some firms from demonstrating decreases in employment, sales, and production.

Second, we found that EDA's performance measures and data collection for the TAA for Firms program provide limited information about the program's outcomes, although our economic analysis found a statistically significant association between participation in the program and an increase in firm sales. EDA collects data to report on 16 measures to gauge the program's performance, such as the number of firms that inquired about the program and the number of petitions filed, but most of these measures do not assess program outcomes. EDA is exploring better ways to assess the effect of their efforts on firms.

We found that EDA does not systematically maintain data collected by the TAA Centers on the firms they assist, resulting in gaps in centralized data that EDA could use to evaluate the program and meet reporting requirements. We identified the following issues:

- *Gaps in centralized data.* According to EDA officials, the agency maintains databases of information from petitions, such as firm location, or information about sales or production, but EDA does not maintain the necessary data to conduct a quantitative analysis of the program, such as whether a firm is a public or private firm or a multiplant firm.
- *EDA relies on multiple data requests from the TAA Centers.* EDA frequently makes additional requests to the centers to obtain their program data when preparing required reports.

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- *Data requests require verification but can still result in inaccuracies.* In addition, EDA relies on each of the centers to validate its data. However, when we compared EDA's data with data provided by the centers, we identified errors in EDA's data.
  - *Lack of guidance results in dissimilar information across centers.* EDA has also not developed guidance on the format and types of program data that centers collect, which has contributed to a lack of comparable data on program activities across the centers.

Given the weaknesses we found in EDA's performance measures and data collection, we undertook further analysis to determine the impact of the TAA for Firms program. Our analysis of data collected from the TAA Centers showed that the program was statistically associated with increased sales and productivity for manufacturing firms, although some factors were more strongly correlated with improved performance than was participation in the TAA for Firms program.

We determined the following:

- *There is a small positive and statistically significant relationship between program participation and sales.* Overall, we estimate that the effect of participation in the program was an increase in firm sales, ranging from 5 to 6 percent on average, if all other factors are held constant. The effect was greater for firms with 300 or fewer employees, which account for 95 percent of firms in our sample. Using productivity (firm sales divided by employment) as one outcome variable, we also found that the effect of the program on productivity was about a 4 percent increase.
- *As imports rose, sales declined for TAA for Firms clients.* Our analysis shows that import penetration<sup>4</sup> was highly statistically significant and most likely had a very negative effect on firm sales. According to our estimates, for every 1 percentage point increase in the industry import penetration ratio, sales of firms included in our analysis decreased by about 16 percent on average.

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<sup>4</sup>Import penetration is defined as the ratio of imports to apparent domestic consumption, which shows the share of the U.S. market for the particular product served by imports. Apparent domestic consumption is derived by subtracting net exports (exports minus imports) from U.S. industry sales or shipments.

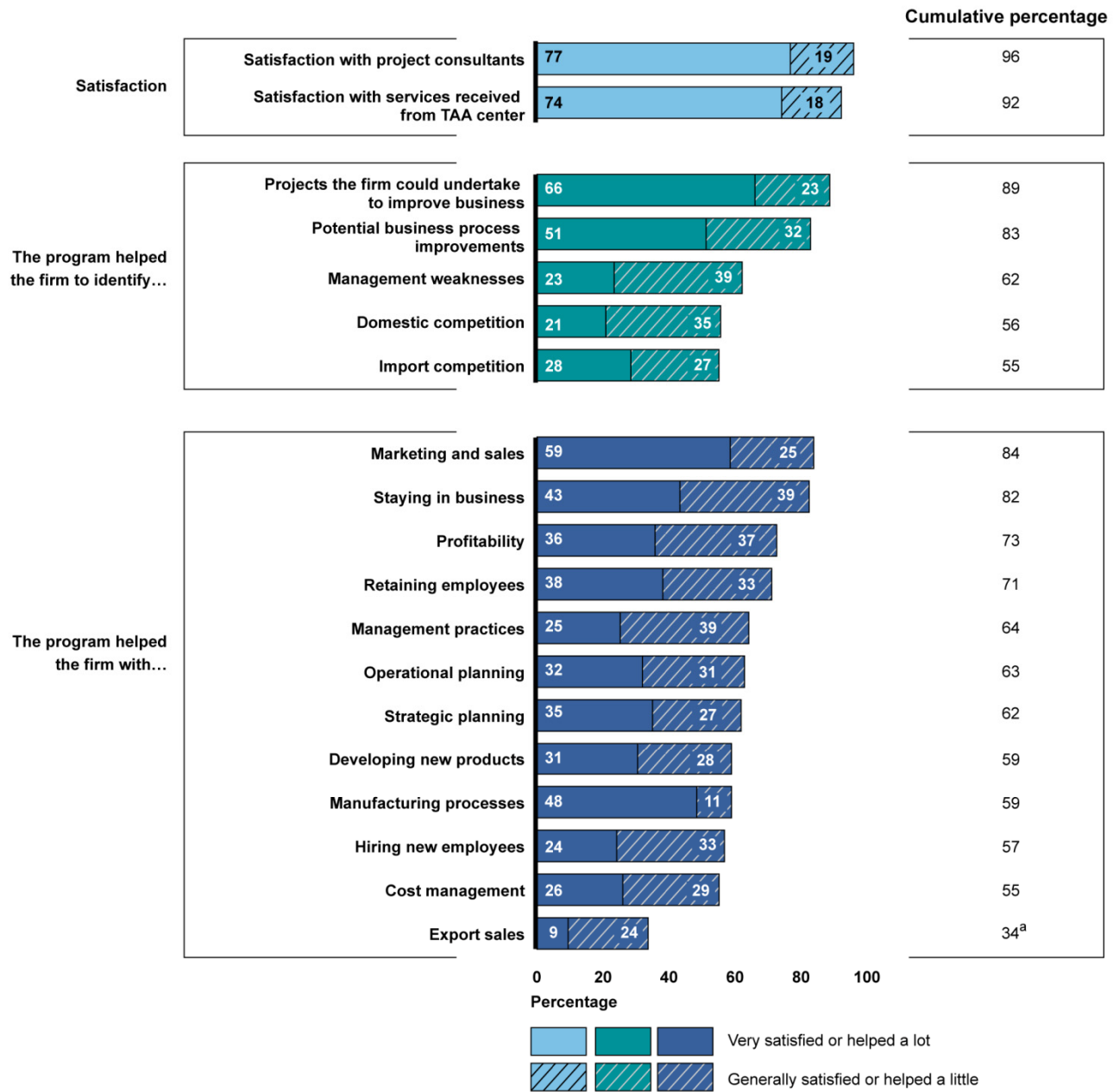
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- *TAA for Firms participation combined with market growth increased firm performance.* We found a statistically significant and positive effect of industry market growth on firm sales after firms participated in the program.<sup>5</sup> Specifically, for firms participating in the program, the percentage change in firm sales increased as market growth increased. For firms in relatively high growth industries, such as certain types of metal manufacturing, plastic pipe manufacturing, and flooring industries, the combination of participation in the program and industry growth affected sales more positively, with such firms experiencing a 6 to 10 percent increase in sales.
  - Our survey of TAA for Firms participants also showed that the program had a positive effect. We conducted a survey of 163 firms that had a recovery plan approved in fiscal year 2009 to obtain their views about their experience with the program; we received responses from 117 of the 163 firms, with a final response rate of 72 percent. The survey included questions about the TAA Centers, the consultants who carried out the projects included in the business recovery plans, and the outcomes of the firm's participation in the program.<sup>6</sup> More than 90 percent of responding firms reported that they were either very or generally satisfied with the services they received from their TAA Center and the consultants who performed work for them (see fig. 1). Over 80 percent reported that the program helped them to identify projects and business process improvements, and 62 percent said that the program helped them to identify management weaknesses.

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<sup>5</sup>For market growth, we used yearly value of shipments data from the Census Annual Survey of Manufacturers from 1997 to 2010. For 2011, we estimated a projected value of shipments. We then estimated market growth rates for each industry (as determined by the six-digit North American Industry Classification System) associated with each firm by taking the natural log differences of the value of shipments divided by the change in year. Log growth rates are often used in economic modeling and empirical analyses.

<sup>6</sup>For complete survey results, please see *Trade Adjustment Assistance: Results of GAO's Survey of Participant Firms in the Trade Adjustment Assistance for Firms Program (GAO-12-935SP)*, an e-supplement to [GAO-12-930](#).

**Figure 1: TAA for Firms Program Clients Expressed Satisfaction with Program and Results**



Source: GAO.

Notes: The difference between the cumulative percentage and 100 percent represents responses that were either "didn't help," "as satisfied as dissatisfied," "generally dissatisfied," "very dissatisfied," "don't know," or "no response/not applicable."

<sup>a</sup> Due to rounding, the cumulative percentage adds up to 34.

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In narrative responses to our survey's open-ended questions, 22 firm representatives said that the program helped their business to grow or improve. In addition, 30 respondents wrote positive comments about their TAA Center's attentiveness to their needs and the ease of working with their center. For the complete results of our survey, please see GAO's e-supplement, [GAO-12-935SP](#).

Third, in terms of how funds are allocated and spent, we identified key weakness pertaining to EDA's funding formula.

EDA has allocated funding to the 11 TAA Centers using a funding allocation formula that comprises a set of weighted factors; however, the formula does not take into account the potential number of firms in need of the program and differences in costs across the centers. According to a key standard—beneficiary equity—a funding allocation formula should distribute funds according to the needs of respective populations and should take into account the costs of providing program services, so that each service area can provide the same level of services to firms in need.

EDA's funding formula divides two-thirds of allocated funding equally among the 11 centers according to base funding and two fixed factors—geographic size and number of firms. The funding formula divides the remaining one-third of allocated funding among the centers according to three variable factors:

- approved business recovery plans,
- employees in approved recovery plans, and
- firms achieving expected results.<sup>7</sup>

However, EDA's funding formula does not include a direct measure of the number of firms potentially in need of the program. To meet the beneficiary equity standard, the formula should use reliable and appropriate measures of need in each state or region.<sup>8</sup> Consequently,

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<sup>7</sup>This is measured by the percentage of a center's clients who reported satisfaction with the assistance received, and assistance being demonstrated by the center's payment to a third-party consultant helping the firm implement a project.

<sup>8</sup>See GAO, *Vocational Rehabilitation Funding Formula: Options for Improving State Grants and Considerations for Performance Incentives*, [GAO-09-798](#) (Sept. 30, 2009).



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centers that may have a greater number of distressed firms due to import competition potentially receive similar funding as those centers serving a much smaller number of trade-impacted firms.

EDA's allocation of funding also does not take into account variations in TAA Centers' costs of providing firms assistance, even though to meet the beneficiary equity standard, a formula should account for differences in the cost of providing services in each region so that each firm may receive the same level of assistance. However, we found that centers' direct and indirect costs to operate the centers varied considerably from one center to another during the cooperative agreement years 2008 to 2010. Because EDA's funding formula does not take into account variations in centers' costs of providing firms assistance, EDA cannot ensure trade-impacted firms in different service areas receive the same opportunities for assistance through the centers. The available evidence we analyzed suggests there is wide variation in the number of firms centers are able to assist and the amount of funding they may provide to implement approved business recovery plans, raising questions about whether limited program funding is being used as effectively as possible.

In conclusion, although funding for Commerce's TAA for Firms program, at less than \$16 million, is small relative to the \$1.3 trillion rise in imports over the past decade, our economic analysis and survey results show that the program has delivered positive results for participating manufacturing and services firms. We found that these firms receive individual attention from TAA Center professionals located in their regions, practical help in developing business recovery plans, and federal matching funds to pursue projects designed to address competitive weaknesses and capitalize on strengths.

The changes to the TAA for Firms program that Congress enacted in the TGAAA in 2009 gave EDA and TAA Center officials more flexibility in certifying firms, strengthened professional management of the program, and improved transparency regarding the program's performance. However, enhanced accountability can be accomplished only through better measures of how the program is helping firms adjust to import competition. Better and more readily retrievable data would give EDA and Congress a more comprehensive and complete picture of program activities and enable more meaningful and ongoing analysis of impact. EDA can do more to ensure that its allocations reflect firms' and regions' varied needs for assistance and TAA Centers' varied costs in providing this assistance. EDA can also encourage more efficient program administration by making the cost of services a criterion in its funding

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formula and by incentivizing TAA Centers' cost-containment efforts, so that more funds are available to serve firms.

In our report, we recommended that Commerce establish more effective measures of program outcomes, improve its data collection, and allocate funds in a way that considers program needs and costs. Commerce concurred with our findings and recommendations. EDA has recognized many of the weaknesses we identified and has already made initial efforts to address them.

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Chairman Platts, Ranking Member Towns, and Members of the Committee, this completes my prepared statement. I would be pleased to respond to any questions you may have.

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## Contacts and Staff Acknowledgments

For further information on this statement, please contact J. Alfredo Gomez, at (202) 512-4101 or [gomezj@gao.gov](mailto:gomezj@gao.gov). In addition, contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement.

Individuals who made key contributions to this testimony include Kim Frankena, Assistant Director; Christina Bruff; David Dayton; Leah DeWolf; Barbara El Osta; Bradley Hunt; and Erin Preston.

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